

## **Instructions to Commonwealth of KY - Payroll**

Beginning this week, DEI is sending notice to insurance coordinators regarding the termination of dependents from the dependent eligibility audit and terminating dependents retroactive to December 31, 2009. This may result in an overpayment of health insurance premiums and the need to request a refund of those premiums. The overpayment amount will be reflected on the Discrepancy report sent to Insurance Coordinators from Brenda Roark in DEI.

**When submitting the Health Insurance Premium Refund Request form to DEI, refund amounts for this particular situation should be made payable to Kentucky State Treasurer, not the employee.** The refund check payable to the KST should be deposited into your agency account. For **PRE-TAX** refunds, **an SAS-27 should be completed to withhold Social Security, Medicare, Federal and State taxes.** The employee will receive the net amount after taxes are withheld. For **POST TAX** refunds, an **SAS-27 should be completed for gross to net only. No taxes will be withheld on Post Tax refunds.**

Since the refund amounts may be large, the adjustment should only be entered into the payroll system as shown in the examples below. If these examples are not followed it will result in additional Social Security and Medicare being withheld and may possibly cause the employee to receive little or no pay on the paycheck issued after the adjustments have been processed.

The following instructions and example will illustrate how to calculate FIT & SIT, complete the SAS-27 and make the adjustments in POT.

### **Calculating the FIT & SIT:**

To calculate the amount of Federal and State tax to be withheld on the refund amount, **you will have to calculate what the FIT & SIT tax would have been if the overpayment had not been deducted following these steps:**

1. Using the QEH report, PERQEHSS in Document Direct, enter the gross wages on the 1 screen in POPY for each pay period affected by the overpayment. If the gross wages & non taxable are the same each pay period, you do not have to enter the 1 screen for each pay period.
2. If the EE Health Ins field does not reflect the premium **after the dependent has been terminated**, you must change the amount to the correct semi-monthly premium.
3. If the 1 screen has amounts for FSA, PRETAX RET PB and DC/Annuities, make sure it matches the amounts that were withheld from their check each pay period affected by the overpayment.
4. Verify that the Gross, EE Health Ins, FSA Ded, DC/Annuities, EE Health Ins and Pretax Ret PB fields are correct. When you hit enter you should see what would have been withheld for FIT & SIT if the overpayment had not been deducted. We recommend printing this screen.
5. Subtract the FIT tax that was withheld from their paycheck on the QEH from the FIT tax on the 1 screen for the difference. After completing this process for each pay period affected by the

overpayment, add the amounts together. This is the amount that will be withheld on the SAS-27 for FIT tax.

6. Subtract the SIT tax that was withheld from their paycheck on the QEH from the SIT tax on the 1 screen for the difference. After completing this process for each pay period affected by the overpayment, add the amounts together. This is the amount that will be withheld on the SAS-27 for SIT tax.

#### **Calculating the SAS-27:**

1. Calculate the total refund amount from the Discrepancy Report that you will receive from DEI.
2. Calculate the amount of Social Security (6.2%) and Medicare (1.45%) to be withheld on the refund amount. **If the employee reached the social security maximum during the overpayment period or due to this adjustment, no social security should be withheld against the Social Security taxable wages in excess of \$106,800.00 .**
3. Enter the amount of FIT & SIT to be withheld using the instructions above for Calculating the FIT & SIT.
4. Subtract the taxes from the gross (which is the refund amount) to figure the net pay the employee is due.
5. Remember to also complete the SAS-27b Certification Form.

In the example, the employee had a couple plan (234.76 semi-monthly) but was changed to a single plan (13.75 semi-monthly) retroactive to January 1 because the dependent was ineligible. The overpayment from the Discrepancy report for the employee's portion is 7,072.32 and 4,881.60 for the employer's portion. The employee pays social security, Medicare and local tax. Social Security is calculated on the overpayment amount:  $7,072.32 \times 6.2\% = 438.48$ . Medicare is calculated on the overpayment amount:  $7,072.32 \times 1.45\% = 102.55$ . The social security and Medicare are added together for the Total FICA –  $438.48 + 102.55 = 541.03$ . FIT & SIT are calculated using the gross wages from the QEH and the 1 screen. The employee was paid the same amount during the overpayment period and the only pre-tax deduction was KRS and health insurance. The gross wage, 1,298.59 semi-monthly, is entered on the 1 screen and the EE Health Ins amount is changed to 13.75. The FIT amount from the 1 screen is 136.06. Subtract the FIT amount withheld from their paycheck, 102.91 for a difference of 33.15. The employee was paid the same for the 16 pay periods affected by the overpayment,  $33.15 \times 16 = 530.40$ . The SIT amount from the 1 screen is 57.75. Subtract the SIT amount withheld from their paycheck, 44.92 for a difference of 12.83. The employee was paid the same gross wage for the 16 pay periods affected by the overpayment,  $12.83 \times 16 = 205.28$ .

#### **Manual Pay and Master File Adjustments for a PRE-TAX REFUND:**

1. Decrease the YTD for the pre-tax health insurance premiums and employer's share (deductions #20 and #63 on the K screen in POPY in UPPS) by the total overpayment amount from the Discrepancy report by updating Option 7 in the Manual Pay Transactions. This transaction will also adjust the FIT, SIT, SOC SEC and MEDICARE taxable wages for W-2 purposes.

OPTION 7 - RETIREMENT, PREM CONVERSION, FSA OR DEFERRED COMP REFUND

COMPANY: \_\_\_\_\_ EMPLOYEE NO: \_\_\_\_\_ NAME: (OPT) \_\_\_\_\_

MASTER FILE ACCUMULATIONS:

DED NO: <b>20</b>	DEDUCTION AMOUNT: <b>707232</b>	EMPLOYEE SHARE
DED NO: <b>63</b>	DEDUCTION AMOUNT: <b>488160</b>	STATE SHARE

ENTER CODE WHICH INDICATES EMPLOYEES COVERAGE: **A**

- A. SOCIAL SECURITY AND MEDICARE
- B. MEDICARE ONLY
- C. NO SOCIAL SECURITY OR MEDICARE

TAX FILE ACCUMULATIONS:

STATE CODE: **05** LOCAL CODE: **96**

PF1/13=MENU PF2/14=HELP PF3/15=EXIT ENTER=VALIDATE MODE: ADD

2. Next, increase the amount of Social Security, Total FICA, Medicare, FIT and SIT withheld YTD by the amount withheld on the SAS-27 by updating the master file accumulations screen in POT:

PEPOT022	PERSONNEL CABINET	
14:29:25	MASTER FILE ACCUMULATIONS 1	05/19/2010
COMPANY:		
12345		
EMPLOYEE NO: 0		
123456789		

330 TRANSACTION: (ALL FIELDS  
YTD)

335 TRANSACTION: (ALL FIELDS															
YTD)															
DED	NO	IND	DED	AMT		DED	NO	IND	DED	AMT		DED	NO	IN	DED
AMT															
---		-	---			---		-	---			---		-	---
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053 RECORD READY FOR
UPDATE
PF1=MENU PF3=END ENTER=PROCEED
ADD
MODE:

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1. Decrease the YTD for the post-tax health insurance premiums and employer's share (deductions # 22 and #63 on the K screen in POPY in UPPS) by the total overpayment amount from the Discrepancy report by updating the master file accumulations screen in POT :

330 TRANSACTION: (ALL FIELDS YTD)										
MEDICARE										TOTAL
W/H		SOC		SEC		SIT		LOCAL		FICA
I	FIT WH	I	W/H (EE)	I	W/H	I	W/H	I	W/H (ER)	I
(EE)										
-	_____	-	_____	-	_____	-	_____	-	_____	-

335 TRANSACTION: (ALL FIELDS  
YTD)

DED NO	IND	DED AMT	DED NO	IND	DED AMT	DED NO	IN	DED
22	-	707232	63	-	488160	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—

EXTRACT (Y = EXTRACT):  
Y

053 RECORD READY FOR  
UPDATE  
PF1=MENU PF3=END ENTER=PROCEED  
ADD

MODE:

If you need assistance with these adjustments, please call or email Shannan Goodrich, Sandy Douglas, or Natalie Jackson of this office and they will be glad to assist you.

Yvonne M. Richmond  
Payroll Branch Manager